

**WEST MARSHALL  
COMMUNITY SCHOOL DISTRICT**

INDEPENDENT AUDITOR'S REPORT  
FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2004

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**WEST MARSHALL COMMUNITY SCHOOL DISTRICT**

**OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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**BOARD OF EDUCATION**

(Before September, 2003 Election)

Kathy Buschbom	President	2005
Rick Howe		2003
Stephen Smith		2003
William Tomlinson		2004
Julie Randall		2004
Julie Arnold		2005
Mark Nolta		2003

(After September, 2003 Election)

Julie Randall	President	2004
Stephen Smith		2006
William Tomlinson		2004
Julie Arnold		2005
Kathy Buschbom		2005
Mark Nolta		2006
Brian Maddick		2006

**SCHOOL OFFICIALS**

Ned Sellers	Superintendent
Christine Davis	District Secretary/ Treasurer

## Independent Auditor's Report

To The Board of Education of the  
West Marshall Community School District:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of West Marshall Community School District, State Center, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities, each major fund, and the aggregate remaining fund information of West Marshall Community School District as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 7 to the financial statements, during the year ended June 30, 2004, West Marshall Community School District adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Statement No. 37, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments; Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated August 4, 2004 on our consideration of West Marshall Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 32 through 33 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise West Marshall Community School District's basic financial statements. We previously audited in accordance with the standards referred to in the second paragraph of this report. The financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. The supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**BRUCE D. FRINK**  
**Certified Public Accountant**

August 4, 2004

## **WEST MARSHALL COMMUNITY SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

West Marshall Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

Because the District is implementing new reporting standards for this fiscal year with significant changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the District's financial position and results of operations.

#### **2004 FINANCIAL HIGHLIGHTS**

- General Fund revenues increased from \$5,764,245 in fiscal 2003 to \$5,793,546 in fiscal 2004, while General Fund expenditures increased from \$5,295,967 in fiscal year 2003 to \$5,660,022 in fiscal 2004.
- The increase in General Fund revenues was attributable to an increase in miscellaneous income. The increase in expenditures was due primarily to an increase in the negotiated salary and benefits and increase Special Education and special instruction program cost such as Title I and at-risk. The General Fund balance increased due to careful monitoring of discretionary spending.
- A decline in interest rates during the past three fiscal years, combined with less cash available to be invested, resulted in a decrease in interest earnings in the General Fund.
- The School Infrastructure Local Option Sales Tax passed in Marshall County in March, 2004. The District will begin receiving these funds in September, 2004. These monies will be used for property tax relief to pay for the District's debt service in fiscal year 2006. Remaining funds will be used for improvements to district facilities.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This report consists of three parts: management's discussion and analysis (this section), the basic financial statements and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are Government-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the District-wide statements.
- The statements for governmental funds explain how basic services, such as regular and special education, were financed in the short term, as well as what remains for future spending.
- The statement for proprietary funds offer short-term and long-term financial information about the activities the District operates like businesses, such as food services.

Other Supplementary Information provides detailed information about the non-major Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

*Figure A-1*  
*West Marshall Community School District*

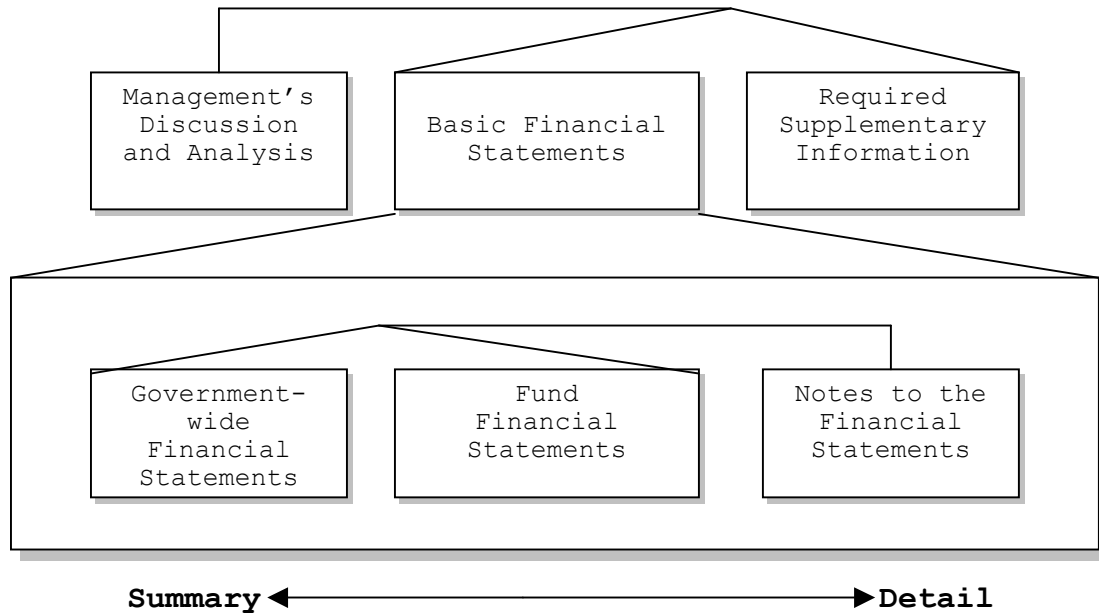


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the management discussion and analysis highlights the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>			
	<b>Government-Wide Statements</b>	<b>Fund Financial Statements</b>	
		<b>Governmental Funds</b>	<b>Proprietary Funds</b>
Scope	Entire district	The activities of the district that are not proprietary, such as special education and building maintenance	Activities the district operates similar to private businesses, such as food service
Required financial statements	. Statement of net assets . Statement of activities	. Balance sheet . Statement of revenues, expenditures, and changes in fund balances	. Statement of net assets . Statement of revenues, expenses and changes in net assets . Statement of cash flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid



## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### *District-wide Financial Statements*

The two District-wide statements report the District's net assets and how they have changed. Net assets - the difference between the District's assets and liabilities - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating respectively.
- To assess the District's overall health, you need to consider additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the District-wide financial statements, the District's activities are divided into two categories:

- **Governmental activities:** Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid, finance most of these activities.
- **Business-type activities:** The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### *Fund Financial Statements*

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) **Governmental funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how much cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, additional information at the bottom of the governmental funds statements explains the relationship (or differences) between them. The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.
- 2) **Proprietary funds:** Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements. The District's enterprise funds (one type of proprietary fund) are the same as its business-type activities but provide more detail and additional information, such as cash flows. The District currently has one enterprise fund, the School Nutrition Fund.

Reconciliations between the district-wide financial statements and the fund financial statements follow the fund financial statements.

## DISTRICT-WIDE FINANCIAL ANALYSIS

**Net assets** - Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2004 compared to June 30, 2003.

**Figure A-3**  
**Condensed Statement of Net Assets**  
**(expressed in thousands)**

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>		<b>Percentage</b>
	<b>Activities</b>		<b>Activities</b>		<b>School District</b>		<b>Change</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2003-2004</b>
	\$	\$	\$	\$	\$	\$	
Current assets	4,029	3,835	97	86	4,126	3,921	5.23%
Capital assets	<u>3,676</u>	<u>3,794</u>	<u>60</u>	<u>60</u>	<u>3,736</u>	<u>3,854</u>	<u>-3.06%</u>
<b>Total assets</b>	<u>7,705</u>	<u>7,629</u>	<u>157</u>	<u>146</u>	<u>7,862</u>	<u>7,775</u>	<u>1.12%</u>
Current liabilities	2,434	2,375	-	-	2,434	2,375	2.48%
Non-current liabilities	<u>2,332</u>	<u>2,475</u>	<u>-</u>	<u>-</u>	<u>2,332</u>	<u>2,475</u>	<u>-5.78%</u>
<b>Total liabilities</b>	<u>4,766</u>	<u>4,850</u>	<u>-</u>	<u>-</u>	<u>4,766</u>	<u>4,850</u>	<u>-1.73%</u>
Net Assets							
Invested in capital assets, net of related debt	1,361	1,319	60	60	1,421	1,379	3.05%
Unrestricted	<u>1,578</u>	<u>1,460</u>	<u>97</u>	<u>86</u>	<u>1,675</u>	<u>1,546</u>	<u>8.34%</u>
<b>Total net assets</b>	<u>2,939</u>	<u>2,779</u>	<u>157</u>	<u>146</u>	<u>3,096</u>	<u>2,925</u>	<u>5.85%</u>

The District's combined net assets were greater at June 30, 2004 than June 30, 2003. The increase occurred as a combined result of increased miscellaneous revenue from all sources and decreases in discretionary spending.

Changes in net assets - figure A-4 shows the changes in net assets for the year ended June 30, 2004.

**Figure A-4**  
**Change in Net Assets**  
**(expressed in thousands)**

	Governmental Activities	Business-type Activities	Total School District
	\$	\$	\$
Revenues:			
Program revenues:			
Charges for service and sales	326	172	498
Operating grants, contributions and restricted interest	645	118	763
General revenues:			
Property tax	2,302	-	2,302
Income surtax	144	-	144
Unrestricted state grants	2,815	-	2,815
Unrestricted investment earnings	38	-	38
Other	94	-	94
Total revenues	<u>6,364</u>	<u>290</u>	<u>6,654</u>
Program expenses:			
Governmental activities:			
Instruction	3,602	-	3,602
Support Services	2,097	-	2,097
Non-instructional programs	2	279	281
Other expenses	492	-	492
Total expenses	<u>6,193</u>	<u>279</u>	<u>6,472</u>
Change in net assets	<u>171</u>	<u>11</u>	<u>182</u>

Property tax and unrestricted state grants account for 77% of the total revenue. The District's expenses primarily relate to instruction and support services which account for 88% of the total expenses.

## Governmental Activities

Revenues for governmental activities were \$6,363,435 and expenses were \$6,257,209.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

<b>Figure A-5</b>		
<b>Total and Net Cost of Governmental Activities</b>		
<b>(expressed in thousands)</b>		
	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
	<b>\$</b>	<b>\$</b>
Instruction	3,602	2,888
Support Services	2,097	2,084
Non-instructional programs	2	2
Other expenses	<u>492</u>	<u>247</u>
Totals	<u>6,193</u>	<u>5,221</u>

- The cost financed by users of the District's programs was \$325,940.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$644,749.
- The net cost of governmental activities was financed with \$2,301,600 in property tax, \$2,814,511 in state foundation aid, and \$38,285 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$290,126 and expenses were \$279,344. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

During the year ended June 30, 2004, the District held meal prices steady. The District spent over \$6,000 on equipment and repairs.

## FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As previously noted West Marshall Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported a combined fund balance of 2,939,247, a six percent increase over last year's ending fund balances of \$2,768,485. The primary reason was the careful monitoring of discretionary spending.

## Governmental Fund Highlights

- The District maintained its General Fund balance by cutting expenses from portions of the budget that were not already obligated, such as supplies and maintenance items.
- The maintaining of funds was made even more difficult with the state completely eliminating the Phase III money and the technology money.

- With the available PPEL dollars the District was able to do a number of repair and remodeling projects to maintain the District's facilities.
- In March, Marshall County passed the school infrastructure local option sales tax. Collection will begin July 1, 2004 for the District.

### **Proprietary Fund Highlights**

Administrative control over discretionary spending and food costs allowed for an increase of over \$10,000 in the Nutrition Fund cash balance. The District was able to purchase over \$6,000 in equipment during the year.

### **BUDGETARY HIGHLIGHTS**

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the cash basis. A schedule showing the original and final budget amounts compared to the District's actual financial activity is included in the required supplementary information section of this report. Since the District does not adopt a budget for individual funds, budgets for the General Fund and major Special Revenue Funds are not presented in the budgetary comparison on pages 35 and 36.

### **Legal Budgetary Highlights**

The District's receipts were \$9,707 greater than budgeted receipts, a variance of less than 1%. The most significant variance resulted from the District receiving less in state aid than originally anticipated, however, this was offset by increased miscellaneous revenues.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

Budgeted expenses in the other expenditures function were greater than anticipated due to additional spending on the facility repair projects.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

#### **Capital Assets**

At June 30, 2004, the District had invested \$3.7 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This represents a net decrease of 3% from last year. More detailed information about the District's capital assets is presented in Note 3 to the financial statements. Depreciation expense for the year was \$192,082.

The original cost of the District's capital assets was \$7,456,090. Governmental funds account for \$7,353,024, with the remainder of \$103,066 accounted for in the Proprietary, School Nutrition Fund.

**Figure A-6**  
**Condensed Statement of Net Assets**  
(expressed in thousands)

	<b>Governmental</b>		<b>Business-type</b>		<b>Total</b>		<b>Total</b>
	<b>Activities</b>		<b>Activities</b>		<b>School District</b>		<b>Change</b>
	<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>		<b>June 30,</b>
	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2004</b>	<b>2003</b>	<b>2003-2004</b>
	\$	\$	\$	\$	\$	\$	
Land	125	125	-	-	125	125	0.00%
Site improvements	153	164	-	-	153	164	-6.71%
Buildings	3,140	3,190	-	-	3,140	3,190	-1.57%
Furniture and equipment	258	315	60	60	318	375	-15.20%
<b>Totals</b>	<b>3,676</b>	<b>3,794</b>	<b>60</b>	<b>60</b>	<b>3,736</b>	<b>3,854</b>	<b>-3.06%</b>

### Long-Term Debt

At June 30, 2004, the District had \$2,315,000 in general obligation, revenue and other long-term debt outstanding. This represents a decrease of approximately 6% from last year (See Figure A-7). Additional information about the District's long-term debt is presented in Note 7 to the financial statements.

**Figure A-7**  
**Outstanding Long-Term Obligations**  
(expressed in thousands)

	<b>Total</b>		<b>Total</b>
	<b>District</b>		<b>Change</b>
	<b>June 30,</b>		<b>June 30,</b>
	<b>2004</b>	<b>2003</b>	<b>2003-2004</b>
	\$	\$	
General obligation bonds	2,315	2,475	-6.46%

### FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could significantly affect its financial health in the future:

- The SILO tax was passed and money will begin to be received by the District in July of 2004.
- The District has experienced declining enrollment the past several years.
- For the 2003-04 school year the state cut the District's budget by 2.5%. This was an across the board cut, effecting Phase I & II and Teacher Compensation as well as other areas. This will force the District to make cuts, or use some of the cash on hand. Future state aid cuts have also been discussed. Cuts made during the fiscal year negatively impact the District's balances as adequate expense reductions are not possible.
- Iowa law requires that unsettled salary negotiations for teachers go to mandatory arbitration. Invariably arbitrated settlements are higher than current levels of allowable growth in funding (not including the budget cuts after the contracts have been settled and people have been hired). A solution needs to be found.
- Health insurance continues to be a very costly item to the District. Even though concessions have been made by employees in regard to deductibles, and coinsurance, other solutions need to be found. The skyrocketing cost of health care and the insurance to cover the cost will soon be unattainable by many.

- Unfunded mandates are stretching the limits of not only the financial health of the District, but also the human resources aspect of the District. "No Child Left Behind", "Student Achievement and Teacher Quality Act", and "GASB 34", to name a few.

#### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ned Sellers, Superintendent, West Marshall Community School District, 3<sup>rd</sup> St NW, PO Box 670, State Center, IA 50247.

## Basic Financial Statements



## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Statement of Net Assets

June 30, 2004

	Governmental Activities	Business-Type Activities	Total
	\$	\$	\$
<b>Assets</b>			
Cash and pooled investments	1,593,808	91,715	1,685,523
Receivables:			
Property tax:			
Current year	34,576	-	34,576
Succeeding year	2,234,963	-	2,234,963
Income surtax - succeeding year	140,000	-	140,000
Other receivables	1,139	-	1,139
Inventories	-	4,941	4,941
Capital assets, net of accumulated depreciation	3,675,679	59,845	3,735,524
<b>Total assets</b>	<u>7,680,165</u>	<u>156,501</u>	<u>7,836,666</u>
<b>Liabilities</b>			
Accounts payable	16,396	-	16,396
Salaries and benefits payable	11,701	-	11,701
Accrued interest payable	5,934	-	5,934
Deferred revenue:			
Succeeding year property tax	2,234,963	-	2,234,963
Succeeding year income surtax	140,000	-	140,000
Long-term liabilities:			
Portion due within one year:			
Early retirement	16,924	-	16,924
General obligation bonds payable	215,000	-	215,000
Portion due after one year:			
General obligation bonds payable	2,100,000	-	2,100,000
<b>Total liabilities</b>	<u>4,740,918</u>	<u>-</u>	<u>4,740,918</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	1,360,679	59,845	1,420,524
Restricted for:			
Management levy	(23,640)	-	(23,640)
Student activities	22,633	-	22,633
Physical plant and equipment levy	11,589	-	11,589
Debt service	13,636	-	13,636
Unrestricted	1,554,350	96,656	1,651,006
<b>Total net assets</b>	<u>2,939,247</u>	<u>156,501</u>	<u>3,095,748</u>

See notes to financial statements.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Statement of Activities

Year ended June 30, 2004

	Program Revenues					Total
	Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
	\$	\$	\$	\$	\$	\$
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	2,415,182	145,674	253,973	(2,015,535)	-	(2,015,535)
Special instruction	752,425	61,818	127,859	(562,748)	-	(562,748)
Other instruction	434,851	118,448	6,192	(310,211)	-	(310,211)
	<u>3,602,458</u>	<u>325,940</u>	<u>388,024</u>	<u>(2,888,494)</u>	<u>-</u>	<u>(2,888,494)</u>
Support services:						
Student services	248,375	-	2,250	(246,125)	-	(246,125)
Instructional staff services	132,999	-	-	(132,999)	-	(132,999)
Administration services	566,388	-	-	(566,388)	-	(566,388)
Operation and maintenance of plant services	674,474	-	-	(674,474)	-	(674,474)
Transportation services	474,343	-	9,902	(464,441)	-	(464,441)
	<u>2,096,579</u>	<u>-</u>	<u>12,152</u>	<u>(2,084,427)</u>	<u>-</u>	<u>(2,084,427)</u>
Non-instructional programs:						
Food service operations	1,827	-	-	(1,827)	-	(1,827)
Other expenditures:						
AEA flowthrough	244,573	-	244,573	-	-	-
Long-term debt interest	127,221	-	-	(127,221)	-	(127,221)
Facilities acquisition and construction	7,205	-	-	(7,205)	-	(7,205)
Depreciation (unallocated)*	112,810	-	-	(112,810)	-	(112,810)
	<u>491,809</u>	<u>-</u>	<u>244,573</u>	<u>(247,236)</u>	<u>-</u>	<u>(247,236)</u>
Total governmental activities	6,192,673	325,940	644,749	(5,221,984)	-	(5,221,984)

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Activities

Year ended June 30, 2004

	Program Revenues					
			Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	Total
Expenses	Charges for Service					
\$	\$	\$	\$	\$	\$	\$
Business-Type activities:						
Non-instructional programs:						
Nutrition services	279,344	172,146	117,980	-	10,782	10,782
Total	6,472,017	498,086	762,729	(5,221,984)	10,782	(5,211,202)
General revenues:						
Property tax levied for:						
General purposes				1,853,840	-	1,853,840
Debt service				290,342	-	290,342
Capital outlay				63,196	-	63,196
Management				94,222	-	94,222
Income surtax				144,141	-	144,141
Unrestricted state grants				2,814,511	-	2,814,511
Unrestricted investment earnings				38,285	-	38,285
Other				94,209	-	94,209
Total general revenue				5,392,746	-	5,392,746
Change in net assets				170,762	10,782	181,544
Net assets beginning of year, as restated (note 7)				2,768,485	145,719	2,914,204
Net assets end of year				2,939,247	156,501	3,095,748

\* This amount excludes the depreciation that is included in the direct expenses of the various programs.

See notes to financial statements.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Balance Sheet

## Governmental Funds

June 30, 2004

	General	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	1,545,230	15,288	33,290	1,593,808
Receivables:				
Property tax:				
Current year	27,942	4,282	2,352	34,576
Succeeding year	1,765,270	286,207	183,486	2,234,963
Income surtax - succeeding year	140,000	-	-	140,000
Other receivables	1,139	-	-	1,139
Interfund receivable	25,060	-	-	25,060
<b>Total assets</b>	<u>3,504,641</u>	<u>305,777</u>	<u>219,128</u>	<u>4,029,546</u>
<b>Liabilities and Fund Balance</b>				
Liabilities:				
Accounts payable	16,396	-	-	16,396
Salaries and benefits payable	11,701	-	-	11,701
Interfund payable	-	-	25,060	25,060
Deferred revenue:				
Succeeding year property tax	1,765,270	286,207	183,486	2,234,963
Succeeding year income surtax	140,000	-	-	140,000
Total liabilities	<u>1,933,367</u>	<u>286,207</u>	<u>208,546</u>	<u>2,428,120</u>
Fund balances:				
Reserved for debt service	-	19,570	-	19,570
Unreserved	<u>1,571,274</u>	<u>-</u>	<u>10,582</u>	<u>1,581,856</u>
Total fund equity and other credits	<u>1,571,274</u>	<u>19,570</u>	<u>10,582</u>	<u>1,601,426</u>
<b>Total liabilities and fund balances</b>	<u>3,504,641</u>	<u>305,777</u>	<u>219,128</u>	<u>4,029,546</u>

See notes to financial statements.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Balance Sheet - Governmental Funds  
to the Statement of Net Assets

June 30, 2004

<b>Total fund balances of governmental funds (Exhibit C)</b>	\$ 1,601,426
<b>Amounts reported for governmental activities in the statement of net assets are different because:</b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	3,675,679
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds	(5,934)
Long-term liabilities, including bonds, are not due and payable in the current period and, therefore, are not reported in the funds	<u>(2,331,924)</u>
<b>Net assets of governmental activities (Exhibit A)</b>	<u>\$ 2,939,247</u>

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Statement of Revenues, Expenditures and Changes in Fund Balances

## Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	1,997,981	290,342	157,418	2,445,741
Tuition	183,515	-	-	183,515
Other	152,221	797	121,332	274,350
State sources	3,351,565	-	-	3,351,565
Federal sources	108,264	-	-	108,264
Total revenues	<u>5,793,546</u>	<u>291,139</u>	<u>278,750</u>	<u>6,363,435</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction	2,389,194	-	43,659	2,432,853
Special instruction	752,425	-	-	752,425
Other instruction	322,608	-	112,243	434,851
	<u>3,464,227</u>	<u>-</u>	<u>155,902</u>	<u>3,620,129</u>
Support services:				
Student services	246,677	-	1,698	248,375
Instructional staff services	132,343	-	656	132,999
Administration services	563,044	-	3,344	566,388
Operation and maintenance of plant services	638,234	-	36,240	674,474
Transportation services	369,097	-	33,019	402,116
	<u>1,949,395</u>	<u>-</u>	<u>74,957</u>	<u>2,024,352</u>
Non-instructional programs:				
Community service and education operations	<u>1,827</u>	<u>-</u>	<u>-</u>	<u>1,827</u>

WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Fund Types

Year ended June 30, 2004

	General	Debt Service	Nonmajor Special Revenue	Total
	\$	\$	\$	\$
Expenditures (continued):				
Other expenditures:				
AEA flowthrough	244,573	-	-	244,573
Long-term debt:				
Principal	-	160,000	-	160,000
Interest	-	132,680	-	132,680
Facilities acquisition and construction	-	-	73,648	73,648
	<u>244,573</u>	<u>292,680</u>	<u>73,648</u>	<u>610,901</u>
Total expenditures	<u>5,660,022</u>	<u>292,680</u>	<u>304,507</u>	<u>6,257,209</u>
Excess of revenues over expenditures	133,524	(1,541)	(25,757)	106,226
Fund balances beginning of year, as restated (note 7)	<u>1,437,750</u>	<u>21,111</u>	<u>36,339</u>	<u>1,495,200</u>
Fund balances end of year	<u><u>1,571,274</u></u>	<u><u>19,570</u></u>	<u><u>10,582</u></u>	<u><u>1,601,426</u></u>

See notes to financial statements.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Reconciliation of the Statement of Revenues, Expenditures and  
 Changes in Fund Balances - Governmental Funds  
 to the Statement of Activities

Year ended June 30, 2004

**Net change in fund balances - total governmental funds (Exhibit E)** \$ 106,226

**Amounts reported for governmental activities in the  
 statement of activities are different because:**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	66,443
Depreciation expense	(185,037)

Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.

General obligation bonds	160,000	
Early retirement	<u>17,671</u>	
		177,671

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

	<u>5,459</u>
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**Change in net assets of governmental activities (Exhibit B)** \$ 170,762



## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Statement of Revenues, Expenses and Changes in Net Assets

## Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Operating revenue:	
Local sources:	
Charges for services	<u>172,146</u>
Operating expenses:	
Non-instructional programs:	
Food service operations:	
Salaries	92,960
Benefits	11,762
Services	4,805
Supplies	160,566
Property	1,151
Depreciation	7,045
Other	<u>1,055</u>
Total operating expenses	<u>279,344</u>
Operating (loss)	<u>(107,198)</u>
Non-operating revenues:	
State sources	4,988
Federal sources	111,078
Interest income	<u>1,914</u>
	<u>117,980</u>
Changes in net assets	10,782
Net assets beginning of year	<u>145,719</u>
Net assets end of year	<u><u>156,501</u></u>

See notes to financial statements.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Statement of Cash Flows

## Proprietary Fund

Year ended June 30, 2004

	School Nutrition
	<u>\$</u>
Cash flows from operating activities:	
Cash received from sale of lunches and breakfasts	172,146
Cash payments to employees for services	(104,722)
Cash payments to suppliers for goods or services	(153,015)
Net cash (used in) operating activities	<u>(85,591)</u>
Cash flows from non-capital financing activities:	
State grants received	4,988
Federal grants received	96,414
Net cash provided by non-capital financing activities	<u>101,402</u>
Cash flows from capital financing activities:	
Acquisition of capital assets	<u>(6,591)</u>
Cash flows from investing activities:	
Interest on investments	<u>1,914</u>
Net (decrease) in cash and cash equivalents	11,134
Cash and cash equivalents beginning of year	<u>80,581</u>
Cash and cash equivalents end of year	<u><u>91,715</u></u>
<b>Reconciliation of operating income (loss) to net cash used in operating activities:</b>	
Operating (loss)	(107,198)
Adjustments to reconcile operating profit (loss) to net cash provided by (used in) operating activities:	
Depreciation	7,045
Commodities used	14,664
(Increase) in inventory	(102)
	<u>(85,591)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on Combined Balance Sheet:</b>	
Current assets:	
Cash	<u><u>91,715</u></u>
<b>Non-cash investing, capital and financing activities:</b>	
During the year ended June 30, 2004, the District received federal commodities valued at \$14,664.	

See notes to financial statements.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

### Notes to Financial Statements

June 30, 2004

#### (1) Summary of Significant Accounting Policies

The West Marshall Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. Additionally, the District either operates or sponsors summer recreational activities. The geographic area served includes the Cities of State Center, Melbourne, Rhodes and Clemons, Iowa, and agricultural area in Story and Marshall Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

##### A. Reporting Entity

For financial reporting purposes, West Marshall Community School District has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The West Marshall Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Marshall County Assessor's Conference Board.

##### B. Basis of Presentation

Government-wide financial statements - The Statements of Net Assets and the Statement of Activities report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for service.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets*, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental proprietary fund. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other non-major governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Debt Service Fund is used to account for the payment of interest and principal on the District's long-term debt.

The District reports the following major proprietary fund:

The District's proprietary fund is the Enterprise, School Nutrition Fund. This fund is used to account for the food service operations of the District.

#### C. Measurement Focus and Basis of Accounting

The District-wide financial statements and the proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected with 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financial sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds' principal ongoing operations. The principal operating revenues of the District's enterprise fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sale and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statement of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in Governmental Funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking the budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the District-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April 2003.

Due From Other Governments - Due from other governments represents amounts due from the State of Iowa and grants from other governments.

Interfund receivable/payable - The District's Management Fund is deemed to owe the General Fund \$25,060 as the result of a deficit cash balance in a joint account.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and contributed value for government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, furniture, and equipment, are reported in the applicable governmental or business-type activities columns in the District-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Land	\$ 1,000
Buildings	10,000
Improvements other than buildings	10,000
Furniture and equipment:	
School Nutrition Fund equipment	10,000
Other furniture and equipment	10,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	20-50 years
Furniture and equipment	5-15 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Compensated Absences - District employees accumulated a limited amount of earned but unused vacation for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the District-wide financial statements. A liability for these amounts is reported in governmental funds only for employees that have resigned or retired. The compensated absences liability is deemed to be immaterial at June 30, 2004.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the District-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. Expenditures exceeded budgeted amounts in the other expenditures functional area during the year ending June 30, 2004.

#### **(2) Cash and Pooled Investments**

The District's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District had no investments at June 30, 2004.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year, as restated (note 7)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	<u>125,000</u>	<u>-</u>	<u>-</u>	<u>125,000</u>
Capital assets being depreciated:				
Site Improvements	328,667	-	-	328,667
Buildings	5,936,182	51,043	-	5,987,225
Furniture and Equipment	<u>896,732</u>	<u>15,400</u>	<u>-</u>	<u>912,132</u>
Total capital assets being depreciated	<u>7,161,581</u>	<u>66,443</u>	<u>-</u>	<u>7,228,024</u>
Less accumulated depreciation for:				
Site Improvements	164,346	11,341	-	175,687
Buildings	2,746,235	101,469	-	2,847,704
Furniture and Equipment	<u>581,727</u>	<u>72,227</u>	<u>-</u>	<u>653,954</u>
Total accumulated depreciation	<u>3,492,308</u>	<u>185,037</u>	<u>-</u>	<u>3,677,345</u>
Total capital assets being depreciated, net	<u>3,669,273</u>	<u>(118,594)</u>	<u>-</u>	<u>3,550,679</u>
Governmental activities, capital assets, net	<u>3,794,273</u>	<u>(118,594)</u>	<u>-</u>	<u>3,675,679</u>
<b>Business type activities:</b>				
Furniture and equipment	96,475	6,591	-	103,066
Less accumulated depreciation	<u>36,176</u>	<u>7,045</u>	<u>-</u>	<u>43,221</u>
Business type activities capital assets, net	<u>60,299</u>	<u>(454)</u>	<u>-</u>	<u>59,845</u>
Depreciation expense was charged to the following functions:				
Governmental activities:				
Support services:				
Transportation				72,227
Unallocated				<u>112,810</u>
				<u>185,037</u>
Business Type activities:				
Food service operations				<u>7,045</u>

### (4) Pension and Retirement Benefits

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the District is required to contribute 5.75% of annual payroll. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2004, 2003, and 2002 were \$199,211, \$191,777, and \$190,678 respectively, equal to the required contributions for each year.



(5) **Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$244,573 for year ended June 30, 2004 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

(6) **Risk Management**

West Marshall Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The District has self-insurance of the deductible for health insurance under an 80/20 plan. The District is liable for each employee's deductible up to \$500 per single and \$1000 for dependent coverage. The District's maximum liability as computed by their insurance carrier is \$49,500 annually (based on current employment levels).

(7) **Accounting Change**

Governmental Accounting Standards Board (GASB) Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements was implemented during the year ended June 30, 2004. The interpretation modifies when compensated absence and early retirement liabilities are recorded under the modified accrual basis of accounting.

Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, Statement Number 37, Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments; Omnibus, Statement Number 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule - Perspective Differences; were implemented during the fiscal year ending June 30, 2004. The statements create new basic financial statements for reporting the District's financial activities. The financial statements now include District-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The District-wide financial statements split the District's programs between business-type and governmental activities. The beginning net asset amount for governmental activities has been restated to include capital assets, long-term liabilities and the changes in assets and liabilities at July 1, 2003 caused by the conversion to the accrual basis of accounting.

	Fund			
	General	Debt Service	Nonmajor Special/Revenue	Total
Net assets, June 30, 2003, as previously reported	\$1,437,750	21,111	1,444	1,460,305
GASB Interpretation 6 adjustments	-	-	34,895	34,895
Net assets, July 1, 2003, as restated for governmental funds	<u>\$1,437,750</u>	<u>21,111</u>	<u>36,339</u>	1,495,200
GASB 34 adjustments:				
Capital assets, net of accumulated depreciation of				3,794,237
Accrued interest payable				(11,057)
Long-Term Liabilities:				
Bonds payable				(2,475,000)
Early retirement				<u>(34,895)</u>
Net assets, July 1, 2003, as restated				<u>\$ 2,768,485</u>

**(8) Bonds Payable**

Details of the District's June 30, 2004 general obligation bonded indebtedness are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Interest</u> <u>Rate</u> %	<u>Principal</u> \$	<u>Interest</u> \$	<u>Total</u> \$
2005	2.50	215,000	71,208	286,208
2006	2.50	220,000	65,832	285,832
2007	2.75	225,000	60,333	285,333
2008	3.00	230,000	54,145	284,145
2009	3.00	245,000	47,245	292,245
2010	3.20	250,000	39,895	289,895
2011	3.30	260,000	31,895	291,895
2012	3.40	270,000	23,315	293,315
2013	3.50	265,000	14,135	279,135
2014	3.60	<u>135,000</u>	<u>4,860</u>	<u>139,860</u>
Total		<u>2,315,000</u>	<u>412,863</u>	<u>2,727,863</u>

**(9) Long-Term Debt**

A summary of changes in long-term debt for the year ended June 30, 2004 is as follows:

	<u>General Obligation Bonds</u>
Balance beginning of year	\$2,475,000
Additions	-
Reductions	<u>160,000</u>
Balance end of year	<u>\$2,315,000</u>

**(10) Early Retirement**

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and employees must have completed ten years of continuous service to the District. Employees must complete an application which is required to be approved by the Board of Education. The early retirement incentive for each eligible employee is the cost of single insurance up to \$350 per month. Early retirement benefits paid during the year ended June 30, 2004 totaled \$34,895. The cost of benefits expected to be liquidated currently are recorded as a liability of the Special Revenue, Management Levy Fund.

**(11) Financial Condition**

The District's Special Revenue - Management Fund had a deficit fund balance of \$23,640 at June 30, 2004.

**(12) Defeased Bonds Outstanding**

In 2002, the District issued refunding bonds to defease certain outstanding bonds, for the purpose of consolidation and to achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to insure payment of debt service on the refunded bonds. Savings are estimated to be \$255,000 over the next ten years.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. On June 1, 2004, all of the defeased bonds were called and fully retired.

## Required Supplementary Information

**WEST MARSHALL COMMUNITY SCHOOL DISTRICT**

Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances -  
Budget and Actual - All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2004

	Governmental Fund Types	Proprietary Fund Type	Total	Budgeted Amounts		Final to Actual
	Actual	Actual	Actual	Original	Final	Variance -
	\$	\$	\$	\$	\$	\$
Receipts:						
Local sources	2,903,606	174,060	3,077,666	3,074,558	3,074,558	3,108
State sources	3,351,565	4,988	3,356,553	3,478,296	3,478,296	(121,743)
Federal sources	108,264	111,078	219,342	91,000	91,000	128,342
Total receipts	<u>6,363,435</u>	<u>290,126</u>	<u>6,653,561</u>	<u>6,643,854</u>	<u>6,643,854</u>	<u>9,707</u>
Disbursements:						
Instruction	3,620,129	-	3,620,129	3,664,444	3,664,444	44,315
Support services	2,024,352	-	2,024,352	2,238,683	2,238,683	214,331
Non-instructional programs	1,827	279,344	281,171	296,744	296,744	15,573
Other expenditures	610,901	-	610,901	554,826	554,826	(56,075)
Total disbursements	<u>6,257,209</u>	<u>279,344</u>	<u>6,536,553</u>	<u>6,754,697</u>	<u>6,754,697</u>	<u>218,144</u>
Excess (deficiency) of receipts over (under) disbursements	106,226	10,782	117,008	(110,843)	(110,843)	227,851
Other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	106,226	10,782	117,008	(110,843)	(110,843)	227,851
Balance beginning of year	<u>1,495,200</u>	<u>145,719</u>	<u>1,640,919</u>	<u>1,150,094</u>	<u>1,150,094</u>	<u>490,825</u>
Balance end of year	<u><u>1,601,426</u></u>	<u><u>156,501</u></u>	<u><u>1,757,927</u></u>	<u><u>1,039,251</u></u>	<u><u>1,039,251</u></u>	<u><u>718,676</u></u>

See accompanying independent auditor's report.

**WEST MARSHALL COMMUNITY SCHOOL DISTRICT**

Notes to Required Supplementary Information - Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the accrual basis of accounting. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functions, not by fund or fund type. These four functions are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functions expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not by fund. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2004, disbursements in the other expenditures function exceeded the amount budgeted.

## Other Supplementary Information

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Combining Balance Sheet

## Nonmajor Special Revenue Funds

June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
<b>Assets</b>				
Cash and pooled investments	-	22,633	10,657	33,290
Property tax receivable:				
Current year	1,420	-	932	2,352
Succeeding year	125,000	-	58,486	183,486
Total assets	126,420	22,633	70,075	219,128
<b>Liabilities and Fund Equity</b>				
Liabilities:				
Interfund payable	25,060	-	-	25,060
Deferred revenue:				
Succeeding year property tax	125,000	-	58,486	183,486
	150,060	-	58,486	208,546
Fund equity:				
Unreserved, undesignated fund balance	(23,640)	22,633	11,589	10,582
	(23,640)	22,633	11,589	10,582
Total liabilities and fund equity	126,420	22,633	70,075	219,128

See accompanying independent auditor's report.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

Combining Schedule of Revenues, Expenditures  
and Changes in Fund Balances

## Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Management	Student	Physical Plant and Equipment Levy	Total
	\$	\$	\$	\$
Revenues:				
Local sources:				
Local tax	94,222	-	63,196	157,418
Other	-	118,448	2,884	121,332
Total revenues	94,222	118,448	66,080	278,750
Expenditures:				
Instruction:				
Regular instruction	43,659	-	-	43,659
Co-curricular instruction	-	112,243	-	112,243
Support services:				
Student support services	1,698	-	-	1,698
Instructional support services	656	-	-	656
Administration services	3,344	-	-	3,344
Plant operation and maintenance	36,240	-	-	36,240
Student transportation	33,019	-	-	33,019
Other expenditures:				
Facility acquisition and construction services	-	-	73,648	73,648
Total expenditures	118,616	112,243	73,648	304,507
Excess (deficiency) of revenues over (under) expenditures	(24,394)	6,205	(7,568)	(25,757)
Fund balances beginning of year, as restated (note 7)	754	16,428	19,157	36,339
Balance end of year	(23,640)	22,633	11,589	10,582

See accompanying independent auditor's report.



## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Schedule of Changes in Special Revenue Fund, Student Activity Accounts

Year ended June 30, 2004

Account	Balance Beginning of Year	Revenues	Expenditures	Balance End of Year
	\$	\$	\$	\$
Dramatics	1,387	2,492	1,804	2,075
Speech	(136)	300	173	(9)
Trojan Players	74	-	-	74
Elementary Renaissance	1,770	5,870	5,478	2,162
Spanish Club	265	1,164	1,170	259
Athletic Memberships	31	200	192	39
Golf	(4,163)	3,844	2,003	(2,322)
Basketball	961	5,471	5,615	817
Volleyball	149	2,197	3,497	(1,151)
Football	261	16,640	19,015	(2,114)
Baseball	(4,870)	7,281	5,895	(3,484)
Track	(2,106)	7,184	3,932	1,146
Wrestling	318	2,369	3,254	(567)
District Football	346	-	248	98
Softball	(2,390)	13,000	12,391	(1,781)
High School Activities	2,167	3,412	4,623	956
FFA	8,570	19,631	16,273	11,928
National Honor Society	294	114	307	101
Class of 2007	-	30	-	30
Class of 2004	(2,825)	110	(3,239)	524
Class of 2003	4,772	-	4,772	-
HS Cheerleaders	642	300	580	362
Class of 2005	25	4,526	3,544	1,007
Class of 2006	50	50	-	100
MS Student Council	1,682	5,799	5,345	2,136
HS Student Council	942	1,219	1,256	905
Interest	464	483	318	629
Annual	4,990	6,764	6,657	5,097
FBLA	1,253	1,027	599	1,681
Ag Day	-	400	-	400
MS Renaissance	713	6,571	6,497	787
HS Renaissance	792	-	44	748
Total	16,428	118,448	112,243	22,633

See accompanying independent auditor's report.

## WEST MARSHALL COMMUNITY SCHOOL DISTRICT

## Schedule of Revenues by Source and Expenditures by Function

All Governmental Funds

For the Last Four Years

	Modified Accrual Basis			
	2004	2003	2002	2001
	\$	\$	\$	\$
Local sources:				
General	1,997,981	2,023,528	1,948,970	1,871,153
Special revenue/debt service	<u>447,760</u>	<u>443,303</u>	<u>431,583</u>	<u>401,934</u>
	<u>2,445,741</u>	<u>2,466,831</u>	<u>2,380,553</u>	<u>2,273,087</u>
State sources:				
General	<u>3,351,565</u>	<u>3,286,074</u>	<u>3,269,068</u>	<u>3,150,026</u>
Federal sources:				
General	<u>108,264</u>	<u>123,698</u>	<u>102,913</u>	<u>105,163</u>
Total	<u><u>5,905,570</u></u>	<u><u>5,876,603</u></u>	<u><u>5,752,534</u></u>	<u><u>5,528,276</u></u>

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance and  
on Internal Control over Financial Reporting**

To the Board of Education of the  
West Marshall Community School District:

We have audited the financial statements of the West Marshall Community School District, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated August 4, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether West Marshall Community School District's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part II of the Accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the general purpose financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have all been resolved except for 04-II-K.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered West Marshall Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect West Marshall Community School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item 04-I-A is a material weakness. Prior year reportable conditions have all been resolved except for item 04-I-A.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of West Marshall Community School District and other parties to whom West Marshall Community School District may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of West Marshall Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

**BRUCE D. FRINK**  
**Certified Public Accountant**

August 4, 2004

**WEST MARSHALL COMMUNITY SCHOOL DISTRICT**

Schedule of Findings

Year ended June 30, 2004

**Part I: Findings Related to the General Purpose Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.

**REPORTABLE CONDITIONS:**

04-I-A      Segregation of Duties - During our review of the internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the District's financial statements. We noted that one individual has custody of receipts and performs all record-keeping and reconciling functions for the office.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the District should review the operating procedures of the office to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and investigate available alternatives.

Conclusion - Response acknowledged.

04-I-A      Deficit Activity Accounts - We noted that the District had deficits in the majority of its athletic accounts inside the Student Activity Fund.

Recommendation - We recommend that the District investigate alternatives to bringing these accounts into a positive financial balance.

Response - We will comply with the recommendation.

Conclusion - Response accepted.

**Part II: Other Findings Related to Required Statutory Reporting:**

04-II-A      Official Depositories - Official depositories have been approved by the District. The maximum deposit amounts approved were exceeded during the year ended June 30, 2004.

Recommendation - We recommend that the District raise its approved depository amounts to cover all deposits.

Response - We will raise the depository amounts.

Conclusion - Response accepted.

**WEST MARSHALL COMMUNITY SCHOOL DISTRICT**

Schedule of Findings

Year ended June 30, 2004

**Part II: Other Findings Related to Required Statutory Reporting:**  
**(continued):**

- 04-II-B      Certified Budget - Disbursements for the year ended June 30, 2004, exceeded the amended certified budget amounts in the other expenditures function.
- Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.
- Response - Future budgets will be amended in sufficient amounts to ensure the certified budget is not exceeded.
- Conclusion - Response accepted.
- 04-II-C      Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- 04-II-D      Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.
- 04-II-E      Business Transactions - No business transactions between the District and District officials or employees.
- 04-II-F      Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- 04-II-G      Board Minutes - We noted no transactions requiring Board approval which had not been approved by the Board.
- 04-II-H      Deposits and Investments - We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.
- 04-II-I      Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely and we noted no significant deficiencies in the amounts reported.
- 04-II-J      Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.
- 04-II-K      Financial Condition - We noted that the District's Special Revenue - Management Fund had a deficit fund balance of \$23,640 at June 30, 2004.
- Recommendation - We recommend that the District take steps to ensure that the fund not continued in a deficit position.
- Response - The District levied sufficient property taxes for fiscal year 2005 to ensure the timely payment of all bills.
- Conclusion - Response accepted.

